

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

State WASHINGTON

PART 2 – INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED SERVICES

Reimbursement for services provided by Intermediate Care Facilities for the mentally retarded (ICFs/MR) for Medicaid recipients is made by rates determined per the following principles, methods, and standards which comply with federal statutory and regulatory requirements.

I. REIMBURSEMENT PRINCIPLES

- A. Medicaid rates are established pursuant to Revised Code of Washington (RCW), Washington Administrative Code (WAC), and Division Policy Directives.
- B. Payment rates for non state owned intermediate care facilities for the mentally retarded, hereafter called ICF/MRs, are comprised of three cost center prospective rate components which are: Resident Care and Habilitation (RCH); Administration, Operations and Property (AO and P); and Return on Equity (ROE). Payment rates for state owned facilities, hereafter called Resident Habilitation Centers (RHCs), are their allowable costs.
- C. Data used for establishing ICF/IMR prospective rates is from providers' most recent cost reports and cost center cost rates. Data used for setting RHC interim rates is based on the RHCs' most recent cost reports.
- D. Cost report data is desk-reviewed to determine that it is correct, complete and reported in conformity with generally accepted accounting principles, and WAC provisions.
- E. Allowable costs are documented costs which are ordinary, necessary, and related to care of Title XIX program residents, and which must be incurred by efficiently and economically operated service providers in conformity with applicable state and federal laws, regulations, and quality and safety standards.

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INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED SERVICES (cont.)

II. ICF/MR RATES

A. Prospective Rates

1. The prospective rate for each provider is computed on a resident day basis. The rate is the total of three cost center rates: Resident Care and Habilitation (RCH); Administration, Operations and Property (AO and P); and Return on Equity (ROE).
2. Rates are prospective, subject to settlement in the Resident Care and Habilitation component at the lower of cost or rate, and are individually computed for each non-state owned ICF/MR facility. Rates are settled on a calendar year basis by comparison of the Residential Care and Habilitation rate component to the corresponding costs it was intended to address. Each provider is issued a preliminary settlement for each calendar year and, if an audit is done, a final settlement. A final settlement, if one is issued, incorporates the audit results and supersedes the preliminary settlement. The total rate after the settlement process (called the "settlement rate") represents the final reimbursement rate of the provider for the calendar settlement year in question.
3. Prospective rates are based upon reported costs of a provider for the most recent calendar year. Prospective rates are reset each July 1st utilizing reported costs from the preceding calendar year, after they have been desk reviewed and adjusted. These rates remain in effect until June 30th of the following year except that they are subject to revisions or adjustment for specific circumstances as described below.

B. Inflation Adjustments

1. New rates reflect inflationary cost increases between the most recent and next prior calendar years because rates are based essentially on the most recent calendar year reported costs. In addition, the department is authorized to increase new rates by an add-on inflation factor subject to the Administration and Operations cost center lid as described in subparagraph II.E.2.b. The Property component of the Administration, Operations and Property cost center and the Return of Equity cost center are not subject to inflation adjustments.

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INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED SERVICES (cont.)

II. ICF/MR RATES (cont.)

(B.) Inflation Adjustments (cont.)

2. The adjusted and allowable costs in the Resident Care and habilitation cost center (except for costs relating to resident care and training (RCT) and recreation personnel) and the Administration and Operations components of the Administration, Operations, and Property cost center are adjusted for inflation based on the Implicit Price Deflator For Personal Consumption published by the U.S. Department of Commerce, Bureau of Economic Analysis.

C. Allowable Costs

Allowable costs are documented costs not expressly declared unallowable which are necessary, ordinary and related to the care of Title XIX program recipients. The Washington system does not guarantee that all allowable costs in any particular period will be fully reimbursed.

D. Resident Care and Habilitation Cost Area Rate

The resident care and habilitation cost center rate reimburses for resident living services, habilitation and training services, recreational services and nursing services in accordance with applicable state and federal regulations. A provider's July 1, rate is the sum of the following:

1. The provider's most recent desk-reviewed costs per resident day (except those costs for resident care and training (RCT) and recreation staff and purchased services) from the most recent calendar year cost report, adjusted for inflation as described in section II.B., divided by the provider's total adjusted number of resident days.
2. The provider's total RCT and recreation staff and purchased service cost per hour, adjusted for inflation as described in section II.B., times the adjusted number of paid hours worked during the rate period, divided by the provider's total adjusted number of resident days.

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INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED SERVICES (cont.)

II. ICF/MR RATES (cont.)

E. Administration, Operations and Property Area Rate

The administration, operations and property cost center rate are comprised of three components: food component rate; administration and operations component rate; and property component rate.

1. The food component rate reimburses for costs of bulk and raw food, dietary supplements and beverages. The rate is a flat rate for all providers based upon the July 1, 1983 IMR food cost center rate of \$3.12 per resident day for all providers increased by the inflation factors granted in each rate period since that time.
2. The administration and operations component rate reimburses for costs of overall administration and management of the facility, operation and maintenance of the physical plant, resident transportation, dietary service (other than the cost of food and beverages), laundry service, medical and habilitative supplies, taxes and insurance. A provider's rate is the lesser of:
 - a. The provider's desk-reviewed administration and operations costs per total resident day, adjusted for inflation and for the period April 1, 1992 through June 30, 1992, a prospective rate adjustment for tax costs levied on total revenue received for ICF/MR services; or,
 - b. The eighty-fifth percentile ranking of ICF/MR and RHC providers' desk-reviewed administration and operations costs per total resident day, adjusted for inflation plus the amount of the prospective rate adjustment for tax costs as described in subparagraph II.E.2.a. The ranking is based on the most recent ICF/MR and RHC cost reports submitted on or before the effective date of the rate period (July 1) for facilities having an occupancy level of at least eighty-five percent for the cost report period.

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II. ICF/MR RATES (cont.)

E. Administration, Operations and Property Area Rate (cont.)

- (2.) c. For establishing a provider's desk-reviewed administration and operations costs, certain administrative personnel, management agreements, and central office services are subject to maximum compensation limits prescribed in Washington Administrative Code (WAC) provisions and Division Policy.

3. The property component rate reimburses for costs of depreciation, interest, and leases of buildings, equipment, and vehicles required in the provision of IMR services. For establishing a provider's desk-reviewed property component costs, depreciation for building, land improvements, and fixed equipment is limited to the straight-line depreciation method. A provider's property component rate is the provider's desk-reviewed property cost from their most recent cost report divided by their total adjusted number of resident days.

Effective October 1, 1984, the depreciation base for assets acquired in a change of ownership entered into on or after July 18, 1984 shall not exceed the lower of the purchase price to the new owner or the allowable acquisition cost base to the first owner of record of the assets on or after July 18, 1984. Costs (including legal fees, accounting and administrative costs, travel costs, and the costs of feasibility studies) attributable to the negotiation or settlement of the sale or purchase of the assets acquired in the change of ownership, where any payment has previously been made by Title XIX, shall not be allowed.

Effective October 1, 1984, allowable debt and interest related to assets acquired in a change of ownership entered into on or after July 18, 1984 shall be the actual debt and interest, except that the rate of interest is limited to the lower of the actual rate of interest or the rate of return on equity related to the acquired assets times the ratio obtained by dividing the allowable acquisition cost base to the new owner (equal to the allowable depreciation base as previously noted) by the purchase price of the assets to the new owner. Debt and interest related to costs (including legal fees, accounting and administrative costs, travel costs, and the costs of feasibility studies) attributable to negotiation or settlement of the sale or purchase of the acquired assets in the change of ownership, where any payment has previously been made by Title XIX, shall not be allowed.

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INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED SERVICES (cont.)

II. ICF/MR RATES (cont.)

E. Administration, Operations and Property Area Rate (cont.)

(3.) Effective October 1, 1984, assets acquired in a change of ownership entered into on or after July 18, 1984, are subject to the following depreciation recapture provisions:

- a. A gain or loss on the retirement of an asset shall be the difference between the remaining undepreciated base and any proceeds received for, or to compensate for the loss of, the asset. If the retired asset is replaced, the gain or loss shall be spread over the actual life of the asset up to the date of retirement, provided the provider has made a reasonable effort to recover at least the outstanding book value of the asset.
- b. If a contractor terminates participation in the program, the department shall recover excess reimbursed depreciation for an asset. Excess reimbursed depreciation is the difference between reimbursement actually paid for depreciation of the asset minus the basis for depreciation of the asset, not to exceed the reimbursement actually paid for depreciation. The basis for depreciation is the difference between the historical cost of the asset minus the sale price of the asset. The basis for depreciation will be adjusted for the period under the program.

F. Return on Equity Component Rate

Proprietary providers are eligible for return on equity. Equity is based upon Medicare rules and regulations (42 CFR 413.157), except that goodwill is not included in determining net equity. Net equity is comprised of a provider's working capital plus equity in assets as of the last day of the most recent calendar year, computed as follows:

1. Working capital is calculated as current assets less current liabilities.

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II. INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED SERVICES (cont.)

F. Return on Equity Component Rate (cont.)

2. Equity in fixed and other assets is determined by subtracting related debts from the net book value of assets (net book value is the historical cost of an asset less accumulated depreciation or amortization). Effective October 1, 1984, the asset value of an acquired asset from a change of ownership entered into on or after July 18, 1984, shall not exceed the lower of the purchase price to the new owner or the allowable acquisition cost base of the asset to the first owner of record on or after July 18, 1984. The debt value related to the acquired assets shall be the actual debt related to the acquired assets times the ratio obtained by dividing the allowable acquisition cost base of the new owner by the purchase price of the assets to the new owner.
3. Net equity is multiplied by the prior calendar years December 31 Medicare rate of return and divided by the providers total annualized resident days for the reporting period. A providers return on equity rate is the lesser of this amount or two dollars per resident day.

G. New Providers

A new provider's rate is based upon the new provider's projected costs, costs and payment rates of the previous provider, and/or rates of other providers in comparable circumstances, taking into account applicable lids or maximums. This data will be used to establish rates until a cost report is submitted which covers at least six months of operation.

H. Rate Adjustment

A provider may request, and the department may grant, a rate adjustment under the following circumstances: changes in staffing or consultant services in order to be in compliance with applicable state and federal laws or regulation; capital additions, improvements or replacements made as a condition of licensure or certification; department changes in program standards or services; or administrative review disposition.

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II. INTERMEDIATE CARE FACILITY FOR THE MENTALLY RETARDED SERVICES (cont.)

I. Final Payment Rates

1. A provider's final payment rate for the resident care and habilitation cost center is established retrospectively and is based on the lower of their prospective rate or their allowable costs. A provider's final payment rate for the administration, operations and property cost center, and return on equity payment is their prospective rate.
2. For the final determination of allowable costs where an ownership change was entered into on or after July 18, 1984, any depreciation which was claimed by a provider will be adjusted so that the owner's historic cost shall take into account actual salvage value (i.e., sales price). Where the depreciation claimed exceeds the actual depreciation based on the adjusted historic cost, the provider shall repay the excess.

III. RHC PAYMENT RATES

A. Interim Rates

1. The payment rate for each RHC is computed on a per resident day basis. The rate is a single cost center rate.
2. An RHC's interim rate is based on their most recent desk-reviewed costs per total resident days. These costs are adjusted as follows:
 - a. Staff costs are adjusted to incorporate legislatively mandated increases in employee related costs.
 - b. Legislative appropriations for changes necessary to be in compliance with applicable state and federal laws or regulations, as a condition of certification, or for changes in program standards or services.

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III. RHC PAYMENT RATES (cont.)

3. RHC's interim rate will be adjusted for federal, state or department changes in programs services or costs.

B. Final Payment Rates

A RHC's final payment rate is established retrospectively and is their allowable costs.

IV. PROVIDER APPEALS

- A. A provider may at any time request a revision of their rate. The department will inform the provider of the disposition of the request within sixty days.
- B. Within 30 days after notification of a rate action or disposition, a provider may request an administrative review conference for the purpose of presenting additional evidence or argument. The conference must be scheduled within ninety days after the request is received from the provider, unless a later date is mutually agreed upon in writing.
- C. Within twenty-eight days after notification of an administrative review conference adverse decision, a provider may request a fair hearing.